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NEA FOR FRONT OFFICE AND NEA/IPA, EEB FOR EBA/CBA, NSC FOR SHAPIRO/KUMAR, TREASURY FOR DMOGER, BSCHMIDT

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TAGS: [ECON](#) [PTER](#) [ETRD](#) [PREL](#) [KWBG](#) [IS](#)

SUBJECT: HAMAS FORCED TO COMPENSATE VICTIMS OF TUNNEL-ASSOCIATED PONZI SCHEME

Classified By: Deputy Principal Officer Greg Marchese for reasons 1.4 (b), (d)

¶1. (SBU) Summary. A collapsed Ponzi scheme linked to the tunnel trade has cost Gazans an estimated USD 200m, caused political problems for Hamas, and forced Hamas to agree to partially compensate victims for their losses. Hamas officials have been forced to defend their reaction to the crisis publicly and may end up paying victims out of their own pockets. End Summary.

Tunnel Economy Opens the Door for Fraud

¶2. (C) According to Palestine Monetary Authority (PMA) officials, the increasing importance of the tunnel trade to Gaza's economy has allowed trade-finance schemes to attract investment from the general public. In one widely discussed case, a chicken merchant from a refugee camp in central Gaza, Osama al-Kurd, went into business offering as much as a 40 percent return on investment, allegedly from profits generated through the tunnel trade. (Note: Al-Kurd is a cousin of Ahmad al-Kurd, Hamas "Minister of Labor" and director of the Al-Salah Society charity. End Note.) According to a USAID contractor in Gaza, al-Kurd's business was purely a Ponzi scheme and relied on "salesmen," many of whom are Hamas members, to solicit investments, often from friends and family, at a rate fast enough to repay previous investors. Gaza-based contacts and press reports claim that the image of "endless profits" from the tunnel trade convinced some individuals to invest their life savings, while others sold their homes and jewelry to invest in this scheme.

¶3. (C) Gaza-based contacts report that al-Kurd's business collapsed in the weeks before Operation Cast Lead once he could not recruit enough new investors to keep up the scam. Al-Kurd was arrested attempting to flee to Egypt in December 2008 and is being held by Hamas security forces, according to PMA officials. Press reports and Gaza contacts claim the losses associated with al-Kurd's scheme total close to USD 200 million.

Hamas Forced to Deal with the Fallout

¶4. (C) In mid-May, according to press reports, Hamas offered to compensate victims of the Ponzi scheme for 16.5 percent of their investment, using assets allegedly recovered from al-Kurd. However, Gaza-based contacts told Treasury attache in late May that, due to the extent of Hamas involvement in the scheme itself, Hamas may need to offer higher levels of compensation in order to save face with its supporters. A

USAID contractor reported that victims of the Ponzi scheme were forced at gunpoint to sign a contract stating that, if they accepted the 16.5 percent compensation rate, they would not seek any further recourse against Hamas, al-Kurd, or his family.

¶ 15. (C) By early June, the pressure on Hamas seems to have grown. The Hamas "Minister of National Economy" was forced to take questions on a June 3 radio call-in program. Callers were reportedly angry about the low levels of compensation and dubious about the amounts of assets reportedly seized by Hamas (only USD 9 million). Callers accused Hamas of confiscating some of al-Kurd's assets, including cars, for its own use. A USAID contractor in Gaza said that, if elections were held tomorrow, Hamas' management of the Ponzi scheme fallout would be the "hot topic," and suggested that Hamas may need to continue to reimburse victims from their own funds because they "can't accuse anyone else."

WALLES